

CITY OF MOUNT VERNON
Skagit County, Washington
Special Audit
September 1, 1993 Through June 30, 1996

Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified And Destroyed

Our audit of the financial records of the municipal court of the City of Mount Vernon revealed at least \$9,472 was misappropriated by a court employee during the period September 1, 1993, through June 30, 1996. Accounting records were falsified and destroyed in an attempt to conceal some of these losses. There were no federal funds involved in this case. These funds were misappropriated as described below.

Cash receipts from customer payments made to the municipal court were taken by a court employee. After collections had been made, the employee entered many transactions in the computer system as noncash credits to eliminate accountability for the funds. These noncash credit transactions were fictitious and unsupported. This occurred either when the clerk received cash directly from customers or after payments had been recorded by other clerks. In addition, some payments recorded on manual cash receipt forms at the court were never subsequently input into the computer system to properly establish accountability for the funds. The employee also improperly reduced, suspended, or dismissed several cases entirely even though the original documents indicated that a penalty was still owing. In other instances, citations were destroyed and never entered into the computer system.

The court employee performed duties as a court clerk, assigned counsel, and probation officer during the period of this loss. In this capacity, she was responsible for processing a wide variety of accounting transactions in the court's computer accounting system. The court employee was placed on paid administrative leave on June 18, 1996, when irregular cash receipt transactions were noted by management officials. On July 10, 1996, she confessed to city police officials that she had misappropriated public funds during the period of her employment with the court. Her employment with the city was also terminated on July 10, 1996.

RCW 42.20.070 states:

Misappropriation and falsification of accounts by public officer.

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town or any school, diking, drainage, or irrigation district, who:

(1) Shall appropriate to his or her own use or the use of any person not

entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or

(4) Shall willfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage, or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in state correctional facility for not more than fifteen years.

The following internal control weaknesses allowed these misappropriations to occur and go undetected:

- a. There was an inadequate segregation of duties. Most of the functions of the court were performed by all court employees. One employee can enter a case, note the bail forfeiture or judge's finding, receive and enter the payment or credit and close the case. Employees were not precluded from performing all aspects of any particular case.
- b. The municipal court used generic prenumbered cash receipt forms rather than official prenumbered cash receipt forms with the city's name printed on them. Generic cash receipt forms provide little control over court revenue because anyone can purchase them at variety or office supply stores. These generic cash receipt forms were used when the computer was down for scheduled and unscheduled maintenance and during the last half-hour of the business day. Manual cash receipt forms issued were not cross-referenced to cash receipt transactions subsequently entered into the computer system. In addition, management officials did not verify whether all manual cash receipt forms issued were subsequently entered into the computer system by court personnel.
- c. Funds in the municipal court were not adequately secured. Only one cash drawer was used even though all court employees receipted transactions throughout the business day. The cash drawer key was left in the lock throughout the day and then placed in an unlocked desk drawer at night and over weekends.
- d. All funds from manual cash receipt transactions recorded when the computer was down or during the last half-hour of the business day, were left in the cash drawer overnight and processed the following business day. All court employees had access to the office during nonbusiness hours.
- e. There was a lack of management review and oversight for noncash credit transactions processed in the municipal court. Computer exception reports were not prepared for management review of all noncash credit transactions processed. In addition, supervisors did not verify that these transactions were properly authorized and supported by appropriate documentation. This allowed the court

clerk to manipulate accounts and conceal these losses without being detected by management officials.

- f. There was inadequate security maintained for the computer system. While all employees were required to use their own unique passwords, most employees left their computers logged-on when they left their work station unattended when they went to lunch or were on breaks. In addition, access to various aspects of the computer system was not adequately restricted. Once logged-on to the computer system, all employees had unlimited access to all aspects of the computer system.

We recommend the City of Mount Vernon seek recovery of the misappropriated \$9,472 and related audit/investigation costs from the court employee and their insurance bonding company. We further recommend the Washington State Office of the Attorney General and the Skagit County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for the court clerk is as follows:

Insurer: USF&G Insurance
Type of Policy: Public Employees Dishonesty Coverage
Policy Number: No. 1CP 300164634
Dollar Amount: \$15,000
Policy Period: June 18, 1993 to June 18, 1997

We also recommend the city review overall accounting controls in the municipal court, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.